

Dow Jones Newswire

Commerce department says fees may change on Northrop satellites

May 11, 2006

WASHINGTON (MarketWatch) -- The U.S. government is weighing changes to a troubled Northrop Grumman Corp. (NOC) weather satellite program, Commerce Department officials told the House Science Committee on Thursday.

Northrop Grumman is the lead contractor on the National Polar-Orbiting Operational Environmental Satellite System, or NPOESS. Raytheon Co. (RTN) and Boeing Co. (BA) also have major roles in the project, which is significantly over budget and behind schedule. Its costs now are projected at \$8 billion to \$10 billion; initially, the project was planned at \$6.5 billion.

Lawmakers said the new program - a collective effort of the Pentagon, the Commerce Department and the National Aeronautics and Space Administration - is essential because existing weather satellites will stop working in a few years.

"NPOESS will provide our 'eyes in the sky' for both civilian and military weather forecasting, and we cannot afford to be stumbling around blind," said U.S. Rep. Sherwood Boehlert, R-N.Y. and House Science Committee chairman.

The Commerce Department's Inspector General said Northrop Grumman won too many bonuses, given the program's track record. When the program triggered formal cost overrun procedures in 2005, Northrop Grumman had received 84% of possible incentive payments - worth more than \$123 million, the Inspector General said in a report summary released at the committee hearing.

Program officials responded that the government already is taking corrective action. The Defense Department, which manages the contract, is making broad changes to its award-fee practices, said Vice Admiral Conrad Lautenbacher, Commerce Department undersecretary and administrator of the National Oceanic and Atmospheric Administration.

"In addition, discussions have already begun about the payment of interim fees and the overall award-fee percentage, and changes will be part of any new or restructured NPOESS contract," Lautenbacher said in his prepared testimony.

Northrop Grumman has said it takes the program's cost breach seriously and will work with the government to fix it. Raytheon, which makes a sensor that has been a particular source of concern, said this week that its part of the project is doing well.

A development model of the Raytheon sensor entered thermal vacuum testing this week, the company said in a press release Tuesday. The Inspector General's report singles out that sensor as a particular example of bad management and poor interagency communication.

The report also recommended more frequent meetings and reviews to make sure the program stays on course. Lautenbacher said the agencies already have launched regular reviews that address those concerns.